

OPENING STATEMENT OF
LUIS V. GUTIERREZ
RANKING DEMOCRAT
SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS
“INCREASING THE EFFECTIVENESS OF STATE
CONSUMER PROTECTIONS”
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Good afternoon, Madame Chair, and thank you for holding today's hearing.

During this hearing, I look forward to gaining further insight on state initiatives aimed at protecting consumers and improving market conduct standards. To better protect consumers, market conduct guidelines need to be updated with higher standards, and the input of the consumers in the developments of these guidelines is of utmost importance.

Reaching consistency in market standards is an important goal, but variations in state populations and consumer demands need to be considered since consumer needs vary depending on each community's population structure.

Furthermore, state insurance department resources need to increase to adequately protect consumers. It makes no sense to talk about ways to better protect insurance consumers, if we don't provide the critical resources to the state insurance departments responsible for protecting them.

So what can be done to strengthen the current system? For one thing, all consumers should have access to adequate coverage and be protected from redlining, life insurance market conduct abuses, race-based life insurance pricing and all other forms of discriminatory practices. In addition, consumers should have access to timely and meaningful information regarding the costs, terms, risks and benefits of insurance policies.

Regulatory entities should conduct ongoing, aggressive market conduct reviews to assess whether unfair discrimination is present and provide for strong enforcement standards.

Insurance policies should be designed to promote competition, facilitate comparison-shopping and provide meaningful and needed protections against loss. Components of the insurance policy must be clear to the consumer, including the actual current and future cost, as well as commissions and penalties.

In addition, insurance departments should identify, based on inquiries and market conduct exams, populations that may need directed education efforts, such as seniors, low-income, low-formal education and recent immigrants.

This should include redlining reviews through analysis of market shares by census tracts or zip codes, analysis of questionable rating criteria, such as credit rating, reviews of pricing methods and reviews of all forms of underwriting instructions. Insurance companies also should be required to invest in communities by marketing and selling policies to prevent or remedy availability problems in communities.

To conclude, we should research the increased use of credit-based insurance scoring and assess the negative effect it is having in consumer's ability to purchase insurance coverage. Low credit scores can prevent someone from being insured at all. The practice has stirred complaints across the country from consumers who feel the use of credit scoring for services unrelated to credit is both discriminatory and invasive.

The mix of information is used to compile a credit score which includes much more than just the timeliness of payments. The methodology includes items such as the outstanding debt a person has and the number and type of open credit lines.

Given the fact that currently 90 percent of property insurers use credit scoring as a determining factor in their approval process and as a means to derive rates, we have an obligation to look at this matter carefully.

A major problem with the use of these scores is the lack of consistency in how scores are established and an unwillingness on the part of the insurers to reveal publicly how they determine scores. Without a standard to fall back on, and without insurance companies being required to reveal how they tabulate scores, there is no way to make sure consumers are protected from discrimination.

Thank you again, Madame Chair, for this timely hearing. I look forward to the testimonies that will be presented today.